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No. 04-1171

IN THE

Supreme Court of the United States

ST. JUDE MEDICAL, INC.,
PACESETTER, INC., AND VENTRITEX, INC.,
Petitioners,

v.

CARDIAC PACEMAKERS, INC.,
GUIDANT SALES CORPORATION, ELI LILLY AND COMPANY,
AND ANNA MIROWSKI,
Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

REPLY BRIEF FOR PETITIONERS

THEODORE B. OLSON
Counsel of Record
MARK A. PERRY
ANDREW S. TULUMELLO
MICHAEL J. EDNEY
GIBSON, DUNN & CRUTCHER LLP
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5306
(202) 955-8500

Counsel for Petitioners

RULE 29.6 STATEMENT

The corporate disclosure statement included in the petition for a writ of certiorari remains accurate.

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REPLY BRIEF FOR PETITIONERS

CPI maintains that it "in no way seeks to condone the Bourland deception." Opp. 22. But that is *exactly* what CPI is seeking to do. If the decision below were to stand, CPI would undoubtedly argue that it is entitled to enjoy the benefit of the jury's validity verdict—a verdict that CPI fraudulently procured in a process that denied St. Jude of its right to a fair trial. The Federal Circuit's decision condoning CPI's misconduct, however, directly conflicts with the decisions of this Court and every other court of appeals, warranting this Court's review.

1. CPI repeatedly accuses St. Jude of misstating the record. *See, e.g.*, Opp. i, 1 n.1, 2 n.2, 9, 23-25. There are at least four problems with this complaint.

First, CPI concedes that it did not challenge on appeal any of the district court's extensive and detailed factual findings regarding the misconduct and resulting prejudice. *See* Opp. 6. *Every* factual assertion in the petition is directly supported by those findings. If there is any doubt on this score, the Court need only refer to the district court's thorough opinion, which stands as an unchallenged chronicle of CPI's perfidy. Pet. App. 120a-155a. It *is* "the record," and it is undisputed.

Second, CPI's quarrels with St. Jude's recitation are unfounded. For example, CPI maintains that "[t]he District Court did not find that CPI . . . committed a fraud." Opp. 24. The district court, however, expressly relied on the "historic power of equity to set aside fraudulently begotten judgments" in ordering a new trial. Pet. App. 152a (quoting *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 245 (1944)). Indeed, no word other than fraud can be used to describe the introduction of deliberately false testimony designed to conceal material evidence, particularly in light of the lack of candor repeatedly displayed by CPI and its lawyers.

Third, CPI is simply attempting to divert attention from its own grievous misconduct. As the district court put it, this "is a classic case of blaming the victim." Pet. App. 142a n.41. Having been called to account for presenting perjured testimony and failing to come clean about the malfeasance, CPI claims that no one person was responsible. Opp. 4 & n.4, 24. CPI fails to explain, however, why this matters (even if, *dubitante*, it is true). As the district court explained, "[a]ccepting as truthful all testimony from CPI lawyers and testimony from Dr. Bourland about his contacts with those lawyers, it is plain that when the knowledge of different CPI lawyers is viewed collectively, *CPI knew at the time of Dr. Bourland's trial testimony that it was false*." Pet. App. 139a; *see also id.* at 140a (explaining that the attorneys' "individual failures do not excuse what amounts to CPI's collective negligence"). CPI cites no case holding that collective knowledge cannot support the imposition of sanctions against a party that sponsors false testimony, engages in repeated violations of its discovery obligations, and flagrantly breaches its duty of candor to the Judiciary.

Fourth, and most importantly, CPI does not even attempt to dispute the most damning evidence of misconduct. As the district court found: "Dr. Bourland deliberately gave false material testimony before, during, and after trial," and "Dr. Bourland's deception entitles St. Jude to a new trial" because "[h]is actions, and CPI's and its lawyers' failures to correct that deception, seriously undermined the fairness and integrity of the proceedings." Pet. App. 120a, 153a. The Federal Circuit's decision to "reinstate" the jury's validity verdict in the face of these *unchallenged* findings conflicts with the decisions of every other court of appeals on the appropriate remedy for witness misconduct. The Court need not "wad[e] through" any factual disputes (Opp. 9) to find ample reason to reverse the decision below.

2. CPI points out that this Court ordinarily does not grant certiorari to review the application of settled law. Opp. 10-13. This proposition is, of course, unquestionable; but it is also inapplicable for at least four reasons.

First, the Federal Circuit did much more than "apply" settled law. Rather, it announced a new rule—*viz.*, that a district court lacks the discretionary authority to order a new trial as a sanction and remedy for prejudicial misconduct—that is at odds with every decision of this Court and the other courts of appeals on the same subject. *See* Pet. 11-20. The resolution of such conflicts is the principal factor motivating the exercise of the Court's certiorari jurisdiction. SUP. CT. R. 10(a) & (c); *see* ROBERT L. STERN, SUPREME COURT PRACTICE § 4.3 (8th ed. 2002).

Second, even if the Federal Circuit's "reinstatement" of the tainted validity verdict could be viewed as a mere application of settled principles of appellate review, review is warranted because that decision "so far depart[s] from the accepted and usual course of judicial proceedings . . . as to call for an exercise of this Court's supervisory power." SUP. CT. R. 10(a); *see* Pet. 21-24. Indeed, the Federal Circuit's decision is sufficiently at odds with prevailing precedent to warrant summary reversal (*id.* at 21)—not because "this case presents no question of general importance" (Opp. 11), but because the fair administration of justice is of such general importance as to preclude ignoring errors of this magnitude.

Third, cases involving the inherent power to sanction misconduct will *always* be somewhat fact-specific because the sanction (or refusal to sanction) must be based on particular misconduct. But this Court has not hesitated to review such cases where, as here, the principles at stake have application far beyond the particular litigants or litigation. *See* Pet. 23-24. By the same token, the "interlocutory posture of the case" (Opp. 13) is no barrier to review. Immediate review of an interlocutory ruling is appropriate where, as here, the question is "fundamental to the further conduct of the case." *United States v. General Motors Corp.*, 323 U.S. 373, 377 (1945); *Land v. Dollar*, 330 U.S. 731, 734 n.2 (1947). It would be more efficient to resolve the issue now so that all disputes related to the '288 patent can be retried at once.

Fourth, "[t]here are issues of great moment to the public in a patent suit." *Hazel-Atlas*, 322 U.S. at 246. Fraud in pat-

ent litigation affects not only the particular litigants, but also the many stakeholders in the patent process and, indeed, the future of American inventiveness. Contrary to CPI's suggestion (Opp. 12 n.9), the fact that the '288 patent has expired is irrelevant because CPI continues to attempt to enforce it against St. Jude and others. *Hazel-Atlas* is the seminal pronouncement on the inherent authority of district courts to sanction litigants who, like CPI, practice fraud during patent litigation; yet CPI relegates the decision to a cursory footnote. *See* Opp. 19 n.13. CPI's assertion that *Hazel-Atlas* "bears no resemblance to the facts of this case" (*ibid.*) is nothing but hollow spin that cannot be reconciled with *Hazel-Atlas*—which *is* directly on point, both factually and legally, and compels reversal of the decision below. *See* Pet. 12, 14-15, 25. As the district court explained, "this is a case in which those interested in the ['288 patent] have attempted to stretch too far the rewards of the patent system . . . . by offering . . . false testimony from the key expert witness." Pet. App. 30a. The *Hazel-Atlas* line of decisions applies directly to such misconduct, and cannot be reconciled with the Federal Circuit's decision.

3. CPI argues that the courts of appeals have the authority to review new trial orders for abuse of discretion. Opp. 14-19. That is inarguably true, but it is also irrelevant for at least four reasons.

First, most of the authorities cited by CPI have nothing to do with prejudicial misconduct. For example, CPI cites *Williams v. City of Valdosta*, 689 F.2d 964 (11th Cir. 1982), for the proposition that "an appellate court may, and will, reverse a district court's grant of a new trial under appropriate circumstances." Opp. 17. But *Williams* was a run-of-the-mill case involving the sufficiency of the evidence supporting a verdict. A court reviewing a new trial order based on evidentiary grounds must ensure that the district court did not invade the province of the jury by substituting its own view of the evidence for the jury's. *E.g.*, *Hewitt v. B.F. Goodrich Co.*, 732 F.2d 1554, 1556 (11th Cir. 1984). In contrast, a new trial ordered to sanction litigation misconduct is de-

signed to "*safeguard[]* the role of the jury" (*Williams*, 689 F.2d at 974-75 n.8 (emphasis added)); deferential appellate review of such an order *preserves* the district court's authority to police its courtroom and to protect the integrity of trial proceedings. CPI, like the Federal Circuit, errs in equating these two very different bases for ordering a new trial.

Second, CPI states that federal appellate courts "may review a district court's decision [to grant a new trial] for an abuse of discretion, and under appropriate circumstances, reverse." Opp. 18. To this assertion, CPI appends a footnote in which seven cases are cited. *Id.* at 18 n.12. In *none* of those decisions, however, did the appellate court reverse the grant of a new trial as a sanction for litigation misconduct. *See, e.g., Virgin Islands Housing Auth. v. David*, 823 F.2d 764, 767 (3d Cir. 1987) (reversing district court's *denial* of a new trial due to fraud).

Third, contrary to CPI's contention (Opp. 17 n.11), the fact that the district court did not invoke Rule 60(b)(3) as additional authority for the new trial order is irrelevant. As this Court has made plain, the inherent power of all federal courts is sufficient authority to vacate a judgment tainted by fraud. *Chambers v. NASCO, Inc.*, 501 U.S. 32, 43 (1991). In any event, the court did find that a new trial was justified under Rule 60(b)(6). Pet. App. 151a n.44. Contrary to CPI's insinuation (Opp. 4 n.5), a finding of bad faith is not a prerequisite to such a new trial order. *See* Pet. App. 152a-153a. And, contrary to CPI's suggestion (Opp. 22-23), the fact that the district court ordered a new trial rather than directing entry of judgment for St. Jude merely points up the discretionary nature of the decision. *See, e.g., United States v. Shaffer Equip. Co.*, 11 F.3d 450, 462-63 (4th Cir. 1993) (sanctions "short of dismissal" are well within district court's discretion to remedy misconduct).

Fourth, CPI has failed to rebut St. Jude's assertion that this case marks the first time in the history of the Republic that an appellate court has found a new trial predicated on prejudicial perjury to be an abuse of discretion. *See* Pet. 9. CPI's lawyers undoubtedly researched this issue as diligently

as St. Jude's did, yet CPI is able to offer just *one* case that—it claims—contravenes St. Jude's assertion. *See* Opp. 19 (citing *United States v. Sanchez*, 969 F.2d 1409 (2d Cir. 1992)). But as the Second Circuit explained in a later proceeding in that case, the district court's grant of a new trial was reversed *because there was no perjury*. *United States v. Sanchez*, 35 F.3d 673, 677 (2d Cir. 1994) ("we expressly concluded that 'the district judge erred in discounting the testimony of [certain witnesses] as perjured'" (quoting 969 F.2d at 1414-15)). Here, CPI did not challenge the district court's determination that Dr. Bourland had perjured himself, nor did CPI challenge the district court's finding that this perjury prejudiced St. Jude's right to a fair trial. CPI's invocation of *Sanchez*, and only *Sanchez*, confirms that there is *no* case in the history of American jurisprudence holding that a district court lacks the discretionary authority to order a new trial in these circumstances.

4. CPI argues that the Federal Circuit's reversal of the new trial order was correct because "Dr. Bourland did not testify at trial on validity and thus, *a fortiori*, his deception could not have infected the jury's verdict on validity." Opp. 20. This argument fails for at least four reasons.

First, the district court made a *finding*, which was not even challenged, much less reversed, on appeal, that CPI's misconduct *did* affect the validity verdict. CPI misleadingly says that the district court "did not order a new trial on all issues." Opp. 17. That is true, but the only issues not covered by the new trial order relate to a *different patent*. Pet. App. 150a. With respect to *every* issue relating to the sole patent that remains the subject of litigation, including validity, the district court explained that "[t]here is no doubt in the court's mind that a new trial is called for" because the result of the misconduct "was the denial of a fair trial." *Ibid.* CPI's assertion that "St. Jude had a full and fair hearing on validity that was untainted by Dr. Bourland's misconduct" (Opp. 21) is flatly contradicted by the district court's findings, which CPI did not challenge on appeal.

Second, the district court's finding of prejudice was clearly correct, because the evidence that Dr. Bourland attempted to conceal directly contradicted the theory of non-obviousness that CPI presented at trial. Pet. App. 131a, 132a, 134a. If the jury had been informed that Dr. Bourland had deliberately lied in his attempt to conceal this evidence, or that CPI had this evidence in its possession before trial but failed to disclose it to St. Jude, the jury could easily have concluded that CPI's trial theory was a fabrication, and ruled for St. Jude on that basis. *See id.* at 145a-146a. Contrary to CPI's contention, St. Jude is not "arguing that it should have had the right to inflame the passions of the jury on a discrete legal issue with a matter that was immaterial to that legal issue" (Opp. 21); rather, St. Jude is arguing that it had the right to present the jury with the *truth* regarding the enormity of Dr. Bourland's, and CPI's, misconduct. That right is secured by the Seventh Amendment and centuries of tradition. The decision below is consistent with neither.

Third, this Court has long recognized that a litigant that engages in misconduct, as CPI did, will "not be permitted the benefit of calculation, which can be little better than speculation, as to the extent of the wrong inflicted upon his opponent." *Minneapolis, St. Paul & Sault Ste. Marie Ry. v. Moquin*, 283 U.S. 520, 521-22 (1931). This principle was recently applied—ironically, by the Federal Circuit—to reject precisely the argument that CPI advances here. *See Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, ___ F.3d ___ (Fed. Cir. Mar. 22, 2005) (No. 04-1279). In *Schreiber*, the wrongdoer argued (as CPI does here) that "a new trial is only appropriate to the extent that its misrepresentations had demonstrated effects on the judgment." Slip op. 13. This argument, the court explained, "ignores the fact that both [the litigant] and its counsel have engaged in serious misconduct" warranting "a new trial on all issues." *Ibid.* (citing *Petrilli v. Dreschel*, 94 F.3d 325, 330 (7th Cir. 1996), and *Fraige v. Am.-Nat'l Watermattress Corp.*, 996 F.2d 295, 298-99 (Fed. Cir. 1993)). Any other rule would allow the wrongdoer to profit from its wrongdoing.

Fourth, CPI's defense of the Federal Circuit decision serves only to highlight the conflict among the circuits. According to CPI, the Federal Circuit reversed the new trial order because the rampant misconduct at trial did not affect the validity verdict—*i.e.*, it did not cause prejudice to St. Jude. But the other courts of appeals have expressly *rejected* a prejudice requirement in these circumstances. Pet. 19-20 (and cases there cited); *see also Chambers*, 501 U.S. at 46. This conflict alone warrants this Court's review.

CONCLUSION

The petition for a writ of certiorari should be granted. The Court may wish to consider summary reversal.

Respectfully submitted.

THEODORE B. OLSON
Counsel of Record
MARK A. PERRY
ANDREW S. TULUMELLO
MICHAEL J. EDNEY
GIBSON, DUNN & CRUTCHER LLP
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5306
(202) 955-8500

Counsel for Petitioners

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